

14 FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING FISCAL YEARS 1955-59

The expected operations and status of the trust fund during the next 5 fiscal years are presented in summary in table 8, together with the figures on the actual experience in earlier fiscal years. The present statutory provisions relating to old-age and survivors insurance are assumed to remain unchanged throughout the period under consideration.

Both the income and disbursements of the trust fund not only depend on the legislative provisions but they are also affected by general economic conditions. Because it is difficult to foresee economic developments, the assumptions on which the estimates here presented are based are subject to many uncertainties. The statement of the expected operations of the trust fund should be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

In table 8, single estimates are given for fiscal years 1955 and 1956, but for fiscal years 1957-59 two sets of estimates are presented based on alternative economic assumptions. Alternative I shows the effect of assumptions postulating a relatively high level of economic activity; alternative II shows the effect of the assumption of a somewhat lower level of economic activity.

In alternative I it is assumed that employment and earnings will be maintained at a high level through calendar year 1959. Hourly wage rates, and therefore weekly earnings and average annual taxable wages, are assumed to increase not only in accordance with long-time trends but also because of steady improvements in economic conditions. The earnings of the self-employed are assumed to follow a similar pattern. Unemployment is assumed to remain at a low level. Benefit disbursements are assumed to increase substantially, primarily because of the long-range upward trend in the number of beneficiaries, and partly because of the effect of the 1954 amendments which become effective in fiscal year 1955.

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 15

TABLE 8.—Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1937-59, subject to the assumptions and limitations stated in the text ¹

[In millions]

Fiscal year	Transactions during period				Net increase in fund ⁵	Fund at end of period
	Income		Disbursements			
	Appropriations ²	Interest on investments ³	Benefit payments	Administrative expenses ⁴		
Past experience:						
1937-54.....	\$30,548	\$2,975	\$12,759	\$722	\$20,043	\$20,043
1941.....	688	56	64	27	653	2,398
1942.....	896	71	110	27	830	3,227
1943.....	1,130	87	149	27	1,041	4,268
1944.....	1,292	103	185	33	1,178	5,446
1945.....	1,310	124	240	27	1,167	6,613
1946.....	1,238	148	321	37	1,028	7,641
1947.....	1,460	163	426	41	1,157	8,798
1948.....	1,617	191	512	47	1,248	10,047
1949.....	1,694	230	607	53	1,263	11,310
1950.....	2,110	257	727	57	1,583	12,893
1951.....	3,124	287	1,498	70	1,843	14,736
1952.....	3,598	334	1,982	85	1,864	16,600
1953.....	4,097	387	2,627	89	1,766	18,366
1954.....	4,589	451	3,276	89	⁶ 1,675	20,043
Estimated future experience:						
1955.....	5,259	463	4,376	108	1,238	21,281
1956.....	6,239	488	5,361	118	1,248	22,529
1957:						
Alternative I.....	6,848	513	5,970	126	1,265	23,794
Alternative II.....	6,264	505	6,102	127	540	23,069
1958:						
Alternative I.....	7,247	539	6,482	121	1,183	24,977
Alternative II.....	6,274	508	6,765	119	-102	22,967
1959:						
Alternative I.....	7,596	563	6,950	116	1,093	26,070
Alternative II.....	6,278	498	7,300	112	-636	22,331

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1955.

² Include insurance contributions, adjusted for refunds, and transfers from general funds equivalent to additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act amendments of 1946).

³ Includes (1) profits on marketable investments amounting to \$183,668 in 1949 and \$8,934 in 1950; and (2) interest transferred from the railroad retirement account.

⁴ Include administrative expenses, less receipts for sale of surplus material, services, etc. For fiscal years 1944 and 1945, represent charges against trust fund; administrative expenses, after adjustment for bookkeeping transfers, were about \$30 million in fiscal year 1944 and \$29 million in fiscal year 1945. Include cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance.

⁵ Totals do not necessarily equal the sum of rounded components.

⁶ Excludes net adjustment of approximately \$0.8 million which was allocable to prior years.

The other set of estimates for fiscal years 1957-59, alternative II, is based on the assumption of a sharp contraction in industrial activity in the latter half of calendar year 1956 with a slow recovery beginning in the first half of calendar year 1959. As a result, estimated taxable payrolls and earnings of the self-employed in the periods affecting tax collections during fiscal years 1957-59, and therefore estimated contributions, are lower under alternative II than under alternative I. Estimated benefit disbursements, on the other hand, are higher under alternative II than under alternative I because a larger number of older workers withdraw from or are unable to find jobs in covered employment.

Under alternative I, the trust fund at the beginning of fiscal year 1955 would amount to about 2.8 times, and under alternative II about 2.7 times, the highest expected annual disbursements during the succeeding 5 fiscal years. Under alternative I, income is estimated to exceed disbursements in each of the 5 fiscal years 1955-59. Under

16 FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

alternative II, income is estimated to exceed disbursements during the 3 years 1955-57; during each of the years 1958 and 1959, disbursements are estimated to exceed income. The net increase in the trust fund during the 5-year period is estimated at about \$6.0 billion under alternative I and about \$2.3 billion under alternative II.

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a new basis of coordinating the railroad retirement program with old-age and survivors insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that the addition of \$424.5 million to the trust fund would place it in the same position as of June 30, 1953, as it would have been if railroad employment had always been covered under the Social Security Act. There is no authority in the law to transfer the amount held in the railroad retirement account to the credit of the trust fund, but interest thereon is payable annually. For the fiscal year ending June 30, 1954, interest amounting to \$9.6 million was transferred to the trust fund in July 1954. Except for interest, the estimates shown in table 8 have not been adjusted to reflect the effect of future interchanges between the railroad retirement account and the trust fund.

As indicated in an earlier section of the report, the 1954 amendments contain provisions which will cause benefit disbursements during the 5 fiscal years 1955-59 to be on a much higher level than the disbursements made under the old law. Moreover, benefit disbursements during the next 5 years, like contributions, will be dependent to a considerable extent upon economic developments and so will have a considerable range of possible variation. The number of workers in covered employment, their distribution among different classes of workers (e. g., older workers, very young workers, women workers not previously engaged in covered employment, etc.), and the level of wages will all have a decided effect upon the amount of benefit payments to be anticipated.

In general, the larger the volume of employment the larger will be the number of workers who are insured under the program, and therefore the larger will be the number of deaths which will give rise to valid claims for survivors' benefits. However, over the short range the amount paid out for survivors' benefits will not be affected significantly by variations in economic conditions. While favorable opportunities for employment will operate to increase the number of insured persons, and hence increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivors' benefits to forego them by working. On balance, the amount paid out for survivors' benefits over the next few years will differ so little whether the economic conditions of alternative I or alternative II are assumed that a single set of estimates is deemed appropriate for both alternatives (table 9).

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 17

TABLE 9.—*Treasury disbursements for benefit payments, distributed by classification of beneficiaries, fiscal years 1941-59, subject to the assumptions and limitations stated in the text*¹

[In millions]

Fiscal year	Total benefit disbursements ²	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total ²	Aged widows, dependent widows, and dependent parents	Widowed mothers, dependent divorced wives, and children	
Past disbursements: ³							
1941	\$64.3	\$31.4	\$5.3	\$15.3	\$1.5	\$13.8	\$12.3
1942	110.3	54.9	9.6	31.6	4.1	27.5	14.1
1943	149.3	72.4	12.7	47.5	7.9	39.6	16.7
1944	184.6	86.8	15.2	63.6	12.1	51.5	19.0
1945	239.8	109.1	19.2	85.8	17.7	68.1	25.7
1946	320.5	153.9	27.2	113.4	24.7	88.7	26.0
1947	425.6	219.2	38.4	139.4	33.8	105.6	28.5
1948	511.7	272.4	47.5	160.5	43.7	116.8	31.3
1949	607.0	333.0	57.7	184.0	55.6	128.4	32.2
1950	727.3	412.6	71.2	209.4	69.3	140.2	34.0
1951	1,498.1	891.1	148.0	413.5	134.3	279.2	45.5
1952	1,982.4	1,191.4	193.5	539.2	179.2	360.0	58.3
1953	2,627.5	1,624.6	253.0	673.6	232.7	441.0	76.3
1954	3,275.6	2,068.5	318.6	798.3	283.0	515.3	90.2
Estimated future disbursements:							
1955	4,376	2,820	435	1,020	382	638	101
1956	5,361	3,526	548	1,175	452	723	112
1957:							
Alternative I...	5,970	3,954	611	1,284	511	773	121
Alternative II...	6,102	4,071	626				
1958:							
Alternative I...	6,482	4,290	660	1,406	578	828	126
Alternative II...	6,765	4,541	692				
1959:							
Alternative I...	6,950	4,589	704	1,527	650	877	130
Alternative II...	7,300	4,900	743				

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1955.

² Totals do not necessarily equal the sum of rounded components.

³ Partly estimated.

On the other hand, the lower the level of employment during the next 5 years the larger will be the volume of benefit payments to retired workers who have attained age 65, and to their eligible dependents. As is indicated in table 10, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. Since fiscal year 1945, however, this proportion has decreased as the number of retired workers receiving benefits increased relatively more rapidly than the number eligible for old-age benefits. The proportion of eligible workers receiving benefits on January 1, 1951 (table 10), would not have declined but for the fact that, for a large number of workers newly eligible as a result of the liberalized insured-status provisions of the 1950 amendments, claims for benefits had been received but had not yet been completely processed.

The drop in the proportion of eligible workers receiving benefits on January 1, 1953, was caused by the fact that many persons in occupations newly covered by the 1950 amendments became fully insured

18 FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

for the first time in 1952. Since these newly insured persons were fairly regularly employed, relatively few filed applications for old-age (primary) benefits. This depressed the proportion of all eligible persons in receipt of such benefits on January 1, 1953, to a lower level. A similar situation is expected on January 1, 1957, when many persons fairly regularly employed in occupations newly covered by the 1954 amendments will be insured. In general, however, the past upward trend in this proportion is expected to continue even under the favorable employment conditions assumed in alternative I. Contributing to this expected increase are the changes in the retirement test contained in the 1954 amendments—notably the reduction from 75 to 72 in the age at which benefits are paid without regard to earnings—which become effective in calendar year 1955.

TABLE 10.—*Workers eligible for and receiving old-age (primary) benefits by attained age, fiscal years 1941-1959, subject to the assumptions and limitations stated in the text*¹

[Numbers in thousands]

Middle of fiscal year (Jan. 1)	All workers aged 65 and over			Workers aged 65-69			Workers aged 70 and over		
	Number eligible for benefits ²	Persons receiving benefits		Number eligible for benefits ²	Persons receiving benefits		Number eligible for benefits ²	Persons receiving benefits	
		Number	Percent of number eligible		Number	Percent of number eligible		Number	Percent of number eligible
Past experience:									
1941.....	548	112	20	376	85	23	172	28	16
1942.....	680	200	29	445	134	30	235	66	28
1943.....	831	260	31	522	153	29	309	107	35
1944.....	1,016	306	30	698	156	26	408	151	37
1945.....	1,244	378	30	708	167	24	536	211	39
1946.....	1,469	518	35	805	212	26	664	306	46
1947.....	1,637	702	43	868	271	31	769	430	56
1948.....	1,813	875	48	930	325	35	883	550	62
1949.....	1,990	1,048	53	1,060	380	38	990	668	67
1950.....	2,164	1,286	59	1,069	474	44	1,095	812	74
1951.....	3,139	1,771	56	1,663	721	43	1,476	1,050	71
1952.....	3,504	2,278	65	1,825	942	52	1,679	1,337	80
1953.....	4,366	2,644	61	2,260	1,055	47	2,106	1,589	75
1954.....	4,801	3,222	67	2,424	1,301	54	2,377	1,921	81
Estimated future experience:									
1955.....	5,190	3,775	73	2,560	1,505	59	2,630	2,270	86
1956.....	5,660	4,440	78	2,700	1,695	63	2,960	2,745	93
1957:									
Alternative I.....	6,295	4,910	78	2,905	1,785	61	3,390	3,125	92
Alternative II.....	6,275	5,040	80	2,890	1,900	66	3,385	3,140	93
1958:									
Alternative I.....	6,645	5,240	79	2,980	1,840	62	3,665	3,400	93
Alternative II.....	6,570	5,485	83	2,920	2,060	71	3,650	3,425	94
1959:									
Alternative I.....	6,950	5,530	80	3,015	1,870	62	3,935	3,660	93
Alternative II.....	6,820	5,835	86	2,910	2,145	74	3,910	3,690	94

¹ In interpreting the estimates in this table reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1955. No adjustments have been made to reflect changes arising from (1) provisions that coordinate the old-age and survivors insurance and railroad retirement programs, and (2) wage credits for military service.

² Figures for 1941-1954 are partly estimated.

If the lower employment conditions assumed in alternative II should materialize, it is expected that larger proportions of eligible workers will be obliged to leave employment especially at ages 65-69. Hence, despite a slightly smaller number of eligible workers, the number receiving old-age (primary) benefits under alternative II would considerably exceed that under alternative I. Moreover, it is expected that the average old-age (primary) benefit amount payable under alternative II would exceed the average under alternative I, inasmuch as many of the more steadily employed, and therefore higher paid, older workers who would not withdraw from employment under the conditions of alternative I would not be employed under the conditions of alternative II. In consequence, alternative II would result in a substantially higher volume of benefit payments to old-age (primary) beneficiaries and their dependents.

Table 10 contains an analysis of workers eligible for old-age (primary) benefits by age attained as of the middle (January 1) of each of the fiscal years 1941 through 1959. The growth in the number of eligible workers aged 65-69 was gradual but uninterrupted during the calendar years 1941 to 1949, inclusive. This growth resulted partly from the increase in the population at these attained ages, but primarily from the fact that each passing year a larger proportion of the persons attaining age 65 had fully insured status. In the calendar year 1940, a worker attaining age 65 would not have been fully insured if he had left covered employment more than $1\frac{1}{2}$ or 2 years previous to his attainment of age 65—for example due to a permanent disability—but in the calendar year 1949 numerous persons attaining age 65 were fully insured even though they left covered employment after reaching age 59.

The marked increase in the number of workers eligible for benefits in 1951 is due to the liberalized insured-status provisions of the 1950 amendments to the Social Security Act. The number of quarters of coverage needed to be eligible for old-age benefits just prior to the passage of these amendments ranged from 27 for persons then attaining age 65 down to 6 for persons then aged 76 and over. As a result of the 1950 amendments all persons who attained age 65 before July 1954 are fully insured if they have the minimum number of 6 quarters of coverage. Consequently, the increase in the number of eligible persons on January 1, 1951, was greatest for the persons in the 65-69 age group. Although the same factors which contributed to the growth in the number of eligible persons before 1951 will continue to be operative after 1950, the amendments in 1950 and 1954 which liberalized the insured-status provisions and extended coverage to new areas of employment will have an even greater effect.

ACTUARIAL STATUS OF THE TRUST FUND

On June 30, 1954, there were about 13,800,000 persons aged 65 and over in the United States, a number equivalent to 8.4 percent of the total population. It is estimated that by the end of the century the number of persons aged 65 and over may be double that on June 30, 1954, and represent from 10 to 13 percent of the population. The effect on the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even

20 FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

greater than may at first appear, because, compared with the present situation, a much larger proportion of aged persons 50 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of this system, with its rising rate of disbursements, is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

Table 11 shows the cost of benefits as a percentage of payroll through the year 2050 and gives the level-premium cost of the program. The level-premium cost ranges from 6.74 to 8.91 percent of payroll, depending upon the combination of assumptions selected. Table 12 shows the estimated contributions, benefit payments, administrative expenses, interest accumulations, and assets of the trust fund at intervals of 10 years through the year 2000, under various alternative combinations of assumptions with respect to benefit costs and levels of employment. A discussion of the assumptions upon which these tables have been calculated is presented in appendix I.

TABLE 11.—*Estimated costs of old-age and survivors insurance system as percent of payroll, 1960-2050*

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate cost estimate ¹
Benefit cost in year			
1960.....	4.04	4.63	4.33
1970.....	5.57	6.39	5.98
1980.....	6.79	7.90	7.34
1990.....	7.55	9.15	8.32
2000.....	7.24	9.31	8.22
2025.....	8.05	12.28	9.88
2050.....	7.89	11.92	9.48
Level-premium cost ²			
2¼ percent interest.....	6.89	8.91	7.82
2.4 percent interest.....	6.80	8.75	7.70
2½ percent interest.....	6.74	8.64	7.62

¹ Based on average of the dollar costs under the low-cost and high-cost estimates.

² Level-premium contribution rate for benefit payments after 1954, taking into account interest on the trust fund on Dec. 31, 1954, future administrative expenses, and the lower contribution rates payable by the self-employed.

NOTE.—The figures in this table are based on high-employment assumptions.

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 21

TABLE 12.—*Estimated progress of old-age and survivors insurance trust fund, 2.4 percent interest*

[In millions]

Calendar year	Contributions ¹	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
Actual data					
1953 ²	\$3,945	\$3,006	\$88	\$414	\$18,707
1953 ³	4,105	3,236	92	424	19,102
1954 ²	5,183	3,670	92	468	20,576
1954 ³	5,373	3,920	96	477	20,944
Low-cost estimate					
1960.....	\$7,807	\$6,822	\$117	\$672	\$29,126
1970.....	12,526	10,654	145	1,061	46,115
1980.....	16,245	14,335	173	1,870	80,649
1990.....	17,734	17,398	199	2,607	111,309
2000.....	19,740	18,559	217	3,413	146,087
High-cost estimate					
1960.....	\$7,736	\$7,736	\$153	\$568	\$24,139
1970.....	12,393	12,097	193	564	24,112
1980.....	15,819	16,235	232	722	30,497
1990.....	16,615	19,752	288	380	14,510
2000.....	17,753	21,470	289	(?)	(?)
Intermediate-cost estimate					
1960.....	\$7,772	\$7,279	\$135	\$620	\$26,632
1970.....	12,460	11,377	169	812	35,114
1980.....	16,032	15,285	202	1,296	55,573
1990.....	17,174	18,574	234	1,494	62,910
2000.....	18,747	20,014	253	1,436	60,494

¹ Combined employer, employee, and self-employed contributions. The combined employer-employee rate is 4 percent for 1954-59, 5 percent for 1960-64, 6 percent for 1965-69, 7 percent for 1970-74, and 8 percent for 1975 and after. The self-employed pay three-fourths of these rates.

² Excluding effect of railroad coverage under financial interchange provision (as is also the case for future estimates shown below).

³ Including effect of railroad coverage under financial interchange provision (as is also the case for future estimates shown below).

⁴ Preliminary; partially estimated.

⁵ Fund exhausted in 1995.

NOTE.—The estimated figures in this table are based on high-employment assumptions.

SUMMARY AND CONCLUSION

During the past 5 fiscal years, the contribution income of the trust fund has increased substantially for a number of reasons. In addition to a rise in earnings levels and the normal uptrend in the labor force, contribution rates increased in 1950 and 1954; moreover, coverage was extended to additional employments and the maximum limit on taxable earnings was raised in 1951. A further extension of coverage and another increase in the taxable earnings limit, both effective on January 1, 1955, will materially raise trust fund receipts in the immediate future. With the growth of the trust fund, interest received on investments has also increased.

Trust fund disbursements have risen even more sharply than contribution income. Basic factors in this increase are the long-term growth in the aged population and, more significantly, the lengthening period during which workers have had an opportunity to earn the quarters of coverage required to be insured. More immediate causes

have been the amendments to the Social Security Act which have extended the program's coverage; lowered the requirements for eligibility to benefits for individuals who retire, and the survivors of individuals who die, in the early years of the program; increased the benefits payable; and liberalized the retirement test. Still further increases in benefit disbursements will result from the 1954 amendments.

It is estimated that aggregate income from contributions and interest on investments of the trust fund during the 5-year period immediately ahead will be wholly sufficient to meet aggregate disbursements of the old-age and survivors insurance program during this period. Long-range actuarial studies show that, on the basis of high employment assumptions, the level-premium cost at 2.4 percent interest ranges from 6.80 to 8.75 percent of payroll, depending on the combination of cost assumptions selected.

Under legislation enacted in 1946, the trust fund was reimbursed out of general revenues for noncontributory benefit payments arising from credit for military service. As a result of legislation enacted in 1950, 1952, and 1953, all noncontributory benefit payments after August 1950 on account of credit for military service have been made from the trust fund with no provision for reimbursement. The Board of Trustees believes that these additional costs should not be borne by the trust fund out of the regular social security tax collections. Instead, it believes that they are a proper charge against the general fund of the Treasury, just as are other costs of maintaining the Armed Forces.